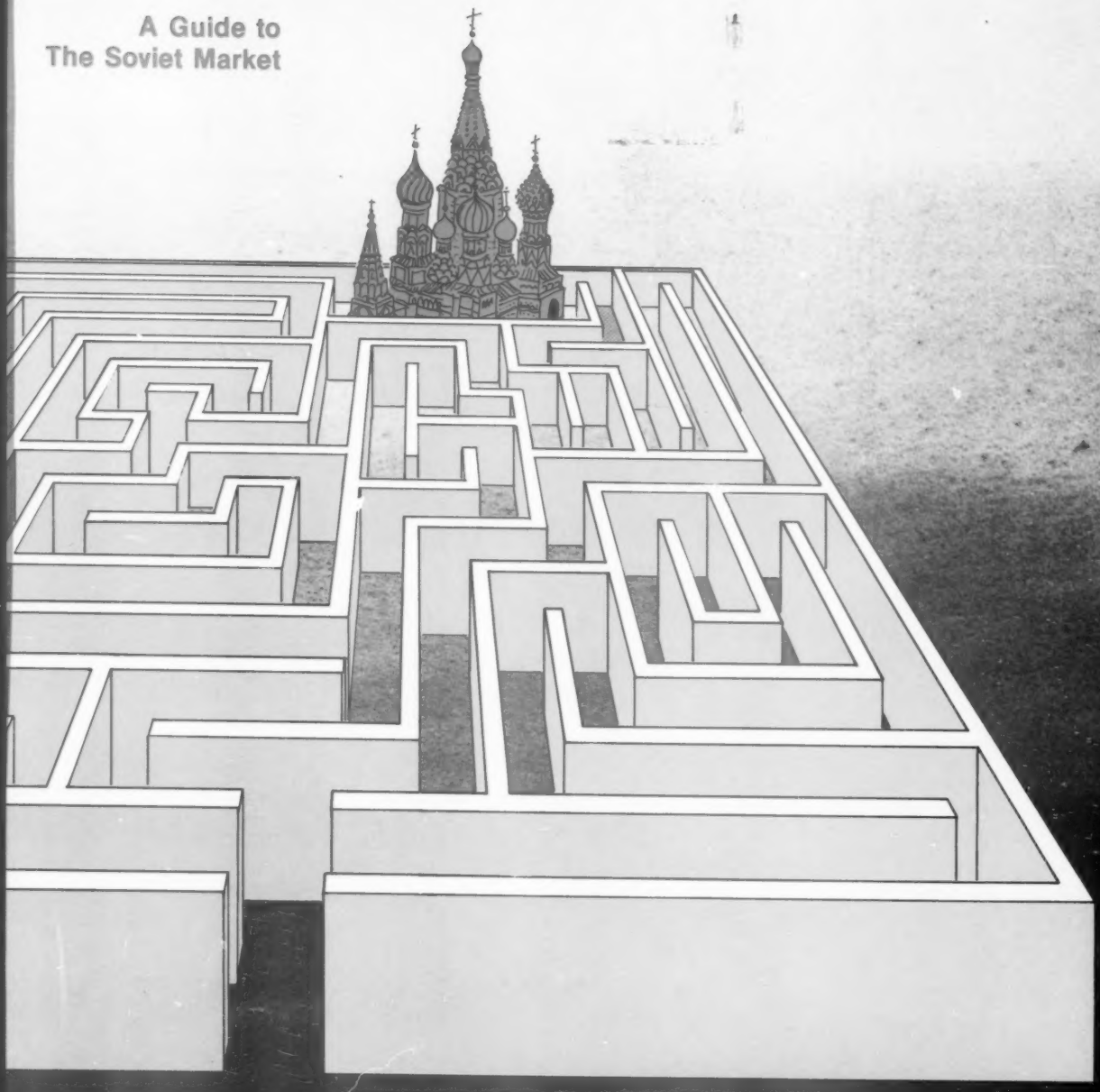
United States
Department of Agriculture

Foreign Agricultural Service

February 1985

Foreign Agriculture

A Guide to The Soviet Market



Marketing News

Sorghum Team Sees Potential Market in China

A U.S. Feed Grains Council (USFGC) sorghum team reports good long-term prospects for U.S. sorghum sales to China. Team leader Elbert Harp said that because the Chinese are planning to expand production of meat, milk and eggs rapidly, they will need to import a large quantity of feed grains.

The Chinese have not imported sorghum since the 1981/82 marketing year. "The Chinese haven't known about the applicability of sorghum to livestock feeding," said Harp, executive director of the Grain Sorghum Producers Association. In addition, the Chinese are unfamiliar with U.S. sorghum. "Like many countries, China has little awareness of the nutritive properties of U.S. yellow sorghum. So our job in China is to bring information on the nutritive properties of U.S. yellow sorghum to potential users. We see great potential for U.S. sorghum exports to China. Our team's visit is the first step in the process which can make that potential a reality."

The group visited the Guangzhou Farm Administration Bureau, a corporation involved in livestock production; various government ministries in Beijing; and Nanjing, where USFGC is working with the China National Feedstuffs Corporation to construct a prototype feedmill.

According to the team, the swine and poultry sectors offer potential for sorghum use in feed rations. USFGC is sponsoring a demonstration in Guangzhou which will compare U.S. sorghum and corn to traditional Chinese swine feeding rations. The grain has been supplied by the Nebraska Sorghum and Corn Boards.

MEF Sponsors Technical Seminars in Europe

The **U.S. Meat Export Federation (MEF)** held technical seminars in London, Paris and Hamburg last fall for European meat importers, wholesalers, chain store buyers, journalists, processors and government representatives. The sessions focused on high-quality beef and variety meat production and fabrication, quality control and yield grading systems and the latest research findings on U.S. offals.

MEF Hamburg director Willem Zerk told participants that the U.S. meat industry is definitely interested in the European market; that communication between U.S. producers and exporters and European customers must be improved; that the United States has more to offer than beef and "common" offals; and that new products and ideas have to be developed to overcome problems such as high exchange rates, recession and changing customer habits.

Trinidad and Tobago Children To Eat More U.S. Wheat Products

U.S. Wheat Associates is working with the School Nutrition Company (SNC) of Trinidad and Tobago to help increase the nutritional value of school lunches on the island. One project currently underway is the development of a high-nutrition "nutri-bun" for use in the program. U.S. Wheat also will be working with SNC to integrate more sandwiches and other wheat-based products such as pasta and cookies into the school lunch program.

SNC officers recently toured U.S. facilities including school lunch sites, equipment manufacturing plants and warehouses. The company provides meals for 50,000 children each day while an additional 55,000 receive a milk drink. Their goal is to feed 300,000 children each day. Trinidad and Tobago buy all of their wheat from the United States. U.S. Wheat vice-president Donald Schultz believes that SNC's addition of new baking and handling equipment, along with additional storage and warehousing facilities, "will definitely increase the volume of U.S. wheat exports" to this market.

The Magazine for Business Firms Selling U.S. Farm Products Overseas

Published by
U.S. Department of Agriculture
Foreign Agricultural Service

Managing Editor
Lynn K. Goldsbrough

Design Director
Vincent Hughes

Writers
Robb Deigh
David Garten
Edwin M. Moffett
Maureen Quinn
Aubrey C. Robinson
Geraldine Schumacher

Production Editor
Evelyn Littlejohn

Text of this magazine may be reprinted freely. Photographs may not be reprinted without permission. Contact the Design Director on (202) 447-6281 for instructions. Use of commercial and trade names does not imply approval or constitute endorsement by USDA or the Foreign Agricultural Service. The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of this Department. Use of funds for printing *Foreign Agriculture* has been approved by the Director, Office of Management and Budget, through March 31, 1987. Yearly subscription rate $16.00 domestic, $20.00 foreign, single copies $2.75 domestic, $3.45 foreign. Order from Superintendent of Documents, Government Printing Office, Washington, DC 20402.

Features

Selling to the USSR: A Primer for Exporters 4

Dealing with the Soviet Union requires specialized export and import knowledge. This guide makes the job a bit easier.

USSR Likely To Remain Key Presence in World Grain Trade 9

Despite the best of efforts, the Soviets are still dependent on large grain imports—a situation likely to continue for the near future.

Global Productivity Gains Will Stiffen Competition for Exporters 12

New agricultural tenchnolgies are setting the stage for the most competitive decade in farm export markets that the world has ever seen.

Thailand's Flourishing Corn Crop Strengthens Export Potential 18

The Thais have set their sights on Asian corn importers as crop production promises to a hit record level.

Foreign Sales Corporation Act Points Toward Greater Profits 19

Agricultural exporters can add 7-15 percent to their profits through new tax incentive legislation.

U.S. Wheat Uses Its Noodle To Sell Wheat to China 21

Modernization of noodle making is one of the ways in which U.S. Wheat Associates is working in China to help build U.S. wheat sales.

Departments

Marketing News 2

Fact File: 1984: An Agritrade Chronology 15

Country Briefs 23

Selling to the USSR: A Primer for Exporters

By Dale Posthumus and William Huth

Selling U.S. food and other agricultural commodities to the USSR—from corn to citrus, from cotton to cowhides—can involve a novel array of foreign trade practices and unique business experiences for the U.S. exporter of farm products more familiar with Western trade practices.

Even veteran exporters find that dealing with a monopoly buyer in a country of more than 270 million people requires specialized import and export knowledge unparalleled in countries that fill their import needs through commercial channels involving numerous traders.

For the new exporter to the USSR, just locating the appropriate buying agency for a particular agricultural product in the intricacy of the Soviet foreign trade bureaucracy can be a time-consuming, costly ordeal.

Then, after contact has been made, prices discussed and delivery dates offered, often comes the noncommittal, "Thank you. Don't call us; we'll call you." The waiting period may last weeks, months, even years.

The U.S. exporter in a position to invest time, money and patience in a prospective sale of agricultural goods to the USSR may find the experience financially rewarding, providing it is clearly understood that sales promotion seeds sown one season may not bear fruit until several seasons have passed.

Although grain accounts for about 85 percent of the value of U.S. agricultural exports to the USSR, a growing array of other products is being imported to meet consumer needs.

The $350 million worth of nongrain farm products the Soviets bought from the United States in fiscal 1984 included cotton ($167 million), soybeans ($123 million), inedible tallow ($34 million), cowhides ($12 million), tree nuts—mostly almonds and filberts—($7 million), tobacco ($698,000), hops ($149,000), vegetable seed ($21,000) and nursery products ($11,000).

Black Star

State Controls Economic Planning

All economic activity in the Soviet Union is planned and carried out by the state. There is no legal private enterprise except for the selling of homegrown produce in local farmers' markets. Foreign traders are not allowed access to these markets.

The Soviet leadership exercises control over export-import trade through a multiplicity of economic planning and regulatory organizations under the direction of the Council of Ministers.

Black Star

The Council determines overall national economic policy. Within the guidelines set by the Council, one-year, five-year and longer term economic development plans are prepared by the State Planning Committee (Gosplan).

These plans spell out in considerable detail the types and quantities of foreign goods required. If hard currency is needed for some imports, it is allocated. However, every effort is made to minimize the outlay of hard currency by obtaining goods from other socialist countries and/or by barter arrangements with suppliers.

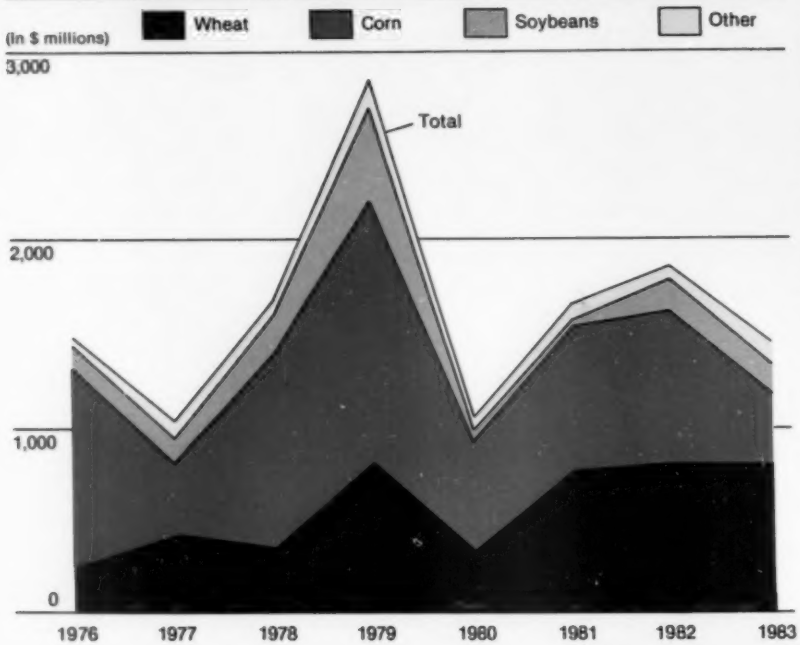
The Ministry of Foreign Trade is responsible for the planning and execution of the foreign trade of the USSR. This includes developing commercial relations with foreign countries, supervising the work of Soviet trade representatives overseas and fulfilling import and export commitments under the various economic plans of Gosplan.

The Role of FTOs

The Ministry also exercises overall control and supervision of about 60 foreign trade organizations (FTOs). FTOs are specialized trading organizations, each with exclusive responsibility for a specified range of goods. Some FTOs handle only exports or imports. Many handle both.

Under Soviet law, FTOs are legal persons and capable of entering into trade contracts with foreign firms and governments. FTOs are of critical importance to American business representatives who want to export to the USSR. They are the initial contact with the Soviet government and often the only contact throughout the course of trade negotiations.

U.S. Agricultural Exports to USSR Are Mostly Wheat, Corn and Soybeans



Among other activities, FTOs distribute product literature, samples or other sales material to potential end-user government agencies. They also are responsible for assessing world market situations in terms of relative qualities, availabilities and prices for the range of products they cover.

When an FTO receives a request from a ministry to purchase a particular product on its behalf, FTO staff specialists evaluate competing foreign products relative to the client's needs and solicit bids from foreign exporters judged to be suitable suppliers.

As FTOs are monopsonistic buyers (one buyer for products of many sellers) on the world market and monopolistic sellers domestically, they hold a strong position in dealing with foreign exporters.

There is no opportunity to exert leverage by attempting to exploit the interest of a potential rival buyer—there simply are no rival buyers. And because FTOs often purchase large quantities, they are in a position to drive hard bargains.

The First Two Steps

There are two principal steps that a U.S. exporter should undertake in selling to the USSR:

—First, determine the appropriate FTO and establish contact with it.

—Second, communicate with the potential end-user—the government agency that will either distribute or consume the product. This is desirable, though occasionally difficult.

In making initial contact with the appropriate FTO, the obvious step is to write a letter to the FTO chairman. Including a Russian translation is an appreciated courtesy and allows the correspondence to reach the proper subsection of the FTO more rapidly than if it had to pass through the hands of Soviet translators.

Exporters also should keep in mind that each FTO has its own staff of specialists who can and do pass judgment on the products offered for sale. Thus, it is important for the exporter to include technical and economic data.

Soviet agencies are very interested in obtaining specific information on food product nutritional and keeping characteristics, seed yield performance records, quality grades, lot sizes, delivery conditions and, of course, prices.

Personal Contacts Are Important

Personal contacts are important and often can be the difference between an immediate sale, a sale at a future date, or no sale at all.

For the U.S. exporter, travel to the USSR is expensive and, at least for consumer food products, sales are the exception rather than the rule. Consequently, a trip to the USSR should not be contemplated unless the exporter believes it can be justified on one of the following conditions:

—It appears to be necessary or desirable for company personnel to become familiar with Soviet business customs and some key Soviet officials.

—A long-term campaign to export to the Soviet market is contemplated and the trip is regarded merely as a first step.

—The volume of any potential sales, by itself, justifies the trip.

Long Trips Not Necessary

Extended business trips to the USSR are not normally necessary. Because all purchasing decisions are made by a relatively few government agencies (all of them in Moscow), a visit of three days is usually adequate. Arrangements for trips to Moscow can be made through local agencies acting as agents for Intourist, the official Soviet travel agency.

Once the decision to make a personal visit to the USSR is reached, the likelihood of success is greatly increased if the exporter comes prepared to discuss a possible sale in detailed, concrete terms, with an order book in hand.

Since Soviet FTOs are dealing in large quantities, they expect sellers to reciprocate with competitive price offers. Finally, an exporter who can assist the Soviets in selling their products to the West or easing the drain on hard currency may have a better chance of completing a contract.

Only FTOs Can Sign Contracts

Although exporters usually are permitted to contact potential end-users (government agencies) of their product, only an FTO can actually contract to import or export a commodity. At the same time, FTO officials emphatically insist they do not initiate decisions to import, but only enter the market when an order is received from a client.

From this relationship stems the desirability for the representative of the U.S. firm to contact responsible officials of potential end-user agencies, such as the Ministry of Agriculture or the Ministry of Food Industry.

The end-user organization's scope for purchasing goods or services from the West is basically determined by the economic plan and associated allocations of foreign currency. But within these limits, the end-user can suggest to the FTO specific product characteristics desired and indicate potential suppliers with products that meet these requirements.

By convincing the end-user, the exporter can, so to speak, double the exposure of his company and its products to the potential buyer. This is not an easy task, however, because detailed information on the product needs and foreign currency allocations of end-user agencies is not available.

A seller's approach must be based on the premise that the product offered meets a demonstrated—or at least a probable—need on the part of the Soviet government.

Black Star

Trade Exhibits Give Good Exposure

Trade exhibits are a good way for U.S. exporters to gain exposure to potential end-users. A number of exhibitions are held in Moscow and other parts of the country every year.

Information on fairs held in the Soviet Union may be obtained by writing V/O Expocentre, 1-a Sokolnicheskii Val, Moscow 107113 USSR; Telex 411185 EXPO SU.

To meet with any degree of success at a Soviet trade fair or exhibition, it is essential for a company to staff the exhibit with personnel who speak Russian as well as have technical expertise.

Russian also should be used in promotional materials (brochures, posters, slides and film presentations). Many of the key decisionmakers and technical advisory people from the end-user agencies will not understand English.

Soviet prices for space and services at trade shows are at least as expensive as in the West. If the effort and expense of participating in a show are deemed worthwhile, then it is important to eliminate any language barrier to getting the product message across.

The Soviet organization to contact regarding participation in trade shows is the USSR Chamber of Commerce in Moscow. In addition to offering such services as establishing business contacts and providing basic economic information, the Chamber makes the necessary arrangements for participation of foreign firms in international and solo exhibitions in the USSR.

Potential of Soviet Market

Is is worth the time, money and effort to try to break into the Soviet market? The chances of immediate success are small. On the other hand, Soviet familiarity with a U.S. company and its products, especially if initial contacts are periodically reinforced, may result in substantial future sales.

The Soviet population is increasing by more than 2 million persons annually. Not only is the size of the potential

Soviet FTOs Buy Imported Farm Products

These FTOs are of potential importance to U.S. exporters of agricultural products:

Exportkhleb exports and imports wheat, rye, barley, oats, maize, rice, pulses, flour, groats, oilseeds, oilcake and meal, other grain and feed products, and seeds and seedlings.

Soyuzplodoimport exports and imports fresh, dried and quick-frozen fruits, berries and vegetables; canned fruits and vegetables; nuts, fruit and berry pulps and juices; wine materials; wines and liquors; brandy; mineral water; soft drinks; tea; coffee; cocoa beans; flavorings and spices; starch; confectionery goods; food concentrates; baby foods; and other foodstuffs.

Prodintorg exports and imports foodstuffs of animal origin, as well as refined and raw sugar, vegetable oils, soft and pressed caviar, tinned fish and crabmeat, quick-frozen fish, trepang, squid, frozen shark, butter, boiled butter, eggs and egg products, cheese, ice cream, sunflowerseed oil, cottonseed oil, olive oil, whale oil, meat and meat products, meat subproducts, tinned meat and milk, enzyme and fermented raw materials, wild fowl and poultry, thoroughbred, draft and meat horses, pedigree cattle and animals for zoos.

Skotoimport imports slaughter meat cattle, sheep, goats, swine, meat horses and meat of domestic and wild animals.

Exportlyon exports cotton; linters; flax; flax tow; long hemp and hemp tow; wool of sheep, goats and camels; fabrics of cotton, flax, wool and silk; cotton thread and natural silk; waste from cotton, flax and hemp; and waste from production of chemical fibers. This agency also imports cotton, sheep wool, wool yarn, viscose and acetate yarn, sisal, manila hemp, artificial and synthetic fiber, fiber and fabrics, jute and jute goods and cord.

Soyuzpushnina exports and imports various furs; raw, dyed and dressed karakul; bristles; animal hair; brushes; hides and skins; natural and artificial leather; skin dressing waste; vegetable tanning extracts; feathers; casings; casein; bone glue; and bone oil.

Raznoexport exports and imports oriental-type leaf tobacco, cigarettes, cigar tobacco and dark leaf tobacco.

Soyuzkoopvneshtorg conducts export and import trade with foreign cooperative societies and firms. Exports honey, cooking poppy seeds; cedar and hazel nuts; walnuts; fresh and dried vegetables and fruits; fruit compotes and jams; tomato paste; dried, salted and pickled cucumbers; onions; garlic; dried bilberries; cowberries in their own juice; cranberries; cloudberries;melons; dried ashberries; pumpkin and flaxseed; fruit and berry pulp; potato starch; live crawfish and snails; wines; tea; medicinal raw materials; nonstandard skins and hides; horns; hooves. The agency also imports canned vegetables and fruits and fresh apples.

Vneshposyltorg sells imported foodstuffs for freely convertible currency in small wholesale lots to foreign firms, embassies and legations, as well as to individual foreign nations. The agency operates beryezkas—special hard currency food stores that stock foreign food items as well as Soviet produce. These stores serve a select clientele of foreigners with access to hard currency and a small number of Soviet citizens with access to special purchasing coupons. Beryezkas represent a small market, but are a potential point of entry into the general Soviet consumer market.

Exportles exports coniferous sawn timber (spruce, pine, Siberian hard), sleepers, props, pulpwood, sawn logs, plywood, pulp and paper, cardwood, chip and fibreboard, and prefabricated wooden houses. The agency also exports and imports pulp, cardboard and cardboard products.

market enormous, but the government is taking steps to provide greater quantity and higher quality consumer products in foodstuffs as well as in other areas.

To achieve the transformation to a consumer-oriented economy in the shortest possible time, the Soviets are particularly interested in advanced technology—better seeds, breeds and feeds, for example. They also are interested in food products, such as citrus, where consumption levels are well below desired norms and where domestic production possibilities are limited. The Soviet Food Program through 1990 focuses on these issues.

There are no easy answers to the question of whether to enter the Soviet market. Each U.S. exporting firm must decide for itself after careful examination of all pertinent factors in the large, but relatively untapped USSR market. ■

This is an update by Posthumus, the assistant agricultural attache in Moscow, of an article written by Huth when he was stationed in the USSR. Huth now is the agricultural attache in the German Democratic Republic.

USSR Likely To Remain Key Presence in World Grain Trade

By Frank Gomme

The Soviet Union is likely to remain a dominant force in world agricultural trade, at least for the near future. Despite the best of efforts, bad weather and infrastructural problems have yielded the sixth consecutive poor harvest. As a result, grain imports will reach an unprecedented level, creating brighter prospects for suppliers such as the United States.

The Soviets have been aggressive buyers in the world grain market in recent months. Sales by the major suppliers this past fall exceeded the pace of any other year. In addition, smaller exporters, such as Finland and Austria, also reported selling to the USSR.

Based on possible shipping schedules, Soviet imports for the first six months of the marketing year could easily exceed the old record. Several factors have likely contributed to this year's heavy buying, including another reduced grain crop, limited stocks, a strong commitment to maintenance of the domestic livestock sector, as well as favorable world grain prices.

The U.S.-Soviet Trade Relationship

Although relations have been less than cordial at times, grain trade is very important for both sides since the Soviet Union is the world's largest grain importer and the United States is the world's largest grain exporter.

Crop developments in the USSR are of particular interest to the United States. The success or failure of the Soviet grain harvest can have a major impact on how much grain a U.S. farmer markets and at what price.

Prior to the 1980 grain embargo, the United States supplied over 70 percent of the Soviet grain import needs in some years. However, this share had plunged to below 20 percent by 1982/83. That share would possibly have fallen even more if not for the U.S.-USSR grain agreement, which provided for minimum annual grain trade.

Brighter U.S. Sales Prospects

The 1983/84 year saw some recovery, with U.S. sales topping 10 million metric tons. The recovery appears to be continuing in 1984/85, with sales already exceeding 15 million tons for the July-June year, assuring the United States of at least the third largest shipments to the Soviets on record.

The increased U.S. share of the Soviet grain market likely reflects not only higher grain trade levels as provided for in the new U.S.-USSR long-term grain agreement (LTA), but also some advantages that the United States has to offer as a supplier.

As a major supplier of exportable grain to the world market, the United States can offer large supplies of various types and qualities of wheat and coarse grains, many port facilities and competitive prices. These factors, along with the LTA, provide a strong framework for expanded U.S.-USSR grain trade.

The Current Soviet Crop

The primary cause of larger grain trade is thought to be a smaller Soviet grain crop. USDA estimates the 1984 grain harvest in the USSR at 170 million tons—the poorest since the disastrous 1975 crop. This is far short of both the target of around 240 million tons and projected consumption requirements of more than 200 million tons.

Because Soviet grain production is typically reported in bunker terms—as it comes from the combine—a downward adjustment in the production estimate is normally made to reflect excess moisture, dockage, waste, etc. The end result is an estimate of usable grain that is usually 10 percent below the figure reported or estimated. Consequently, the 1984 crop of 170 million tons may yield only slightly over 150 million tons of usable grain.

Given recent trends, Soviet grain production could continue to average below plan. When combined with an expanding demand for meat products and companion increases in grain for feed requirements and stock rebuilding, Soviet grain import demand will remain significant for some time to come.

Annual Soviet Grain Requirements

Over the past five years, the Soviets' annual grain requirements have averaged close to 200 million tons. The 1984/85 marketing year is not expected to be much different. Seed requirements for planting the 1985 crop should continue at around 27 million tons. The food and industrial sector will need another 50-55 million tons of grain with wheat accounting for three-fourths of the total.

Grain for feed is the single biggest disappearance item in the USSR, annually accounting for around 60

USSR Grain Agreements in Effect for 1984/85

Country	Agreement
United States	9 million tons of wheat and corn (Oct.-Sept.)
Canada	5.5 million tons of grain (Aug.-July)
Argentina	4 million tons of coarse grain (calendar year)
France	1.5-3.0 million tons of grain (Aug.-July)
Brazil	500,000 tons of corn
Hungary	500,000 tons of wheat or corn
Austria	250,000 tons of wheat
Thailand	200,000 tons of corn

percent of use. Grain only accounts for about 40 percent of the feed concentrate fed to livestock in the USSR compared with 80 percent in the United States.

Record-Shattering Grain Imports

In addition to drawing heavily on stocks, the recent run of short crops has caused the Soviets to turn increasingly to the world marketplace to cover their needs. For the 1984/85 marketing year, strong demand is expected to result in Soviet grain imports soaring to a record-shattering 50 million tons.

The Soviets are projected to account for over 20 percent of the world's coarse grain imports in 1984/85 and nearly one-fourth of the corn moving in world commerce. One of every four tons of wheat moving into export channels around the world will be headed towards the Soviet Union.

Soviet wheat imports for this marketing year are estimated at a record 26 million tons. The Soviets, traditionally a major factor in the U.S. hard winter wheat market and the Canadian spring wheat market, are looming larger in this year's soft wheat market with significant purchases of soft wheat from the European Community.

Soviets Depend on Trading Agreements

The USSR currently is assured access to over 20 million tons of grain annually in the marketplace under various trading agreements.

Except for Australia, all the major grain suppliers to the USSR have some sort of grain trading agreement in place. The United States, with a five-year agreement calling for a minimum annual trade of 9 million tons, has a significant share of the Soviet grain trade.

A String of Poor Soviet Harvests

A number of factors have contributed to a recent string of less than satisfactory Soviet grain harvests. Weather has frequently thwarted the best efforts of the Soviet grain producer. Frequent complaints of poor quality seed stocks, shortages of fertilizer and other production resources are reported.

Soviet news sources point out perennial problems of planting, harvesting and transportation delays because of poor machinery preparation and maintenance. Spare parts for farm machinery often are obtainable only by cannibalizing other machinery on the farm.

Grain yields have suffered as the average per hectare outturn for the 1980-84 period is the poorest since the late 1960s. One would have to go back to that period to find a time when both wheat and coarse grain yields averaged below the level of recent years. This is in sharp contrast to yield trends in many other grain growing nations, where yields have trended sharply upward. For example, since the late 1960s grain yields have risen 50 percent in Eastern Europe, 100 percent in China, 60 percent in India, 50 percent in Western Europe and 30 percent in the United States.

Grain area in the USSR, estimated at 118 million hectares in 1984, would be the lowest since 1971. This reflects Soviet efforts to reemphasize fallow in the grain farming operation to enhance yield prospects and the abandonment of grain fields this year because of poor yield prospects and harvesting difficulties.

Future Trade Prospects

The Soviet Union is likely to remain a key player in both world wheat and coarse grain import markets for some time. Given trade patterns and policies of recent years, it is also likely that the level of Soviet grain imports will fluctuate dramatically from one year to the next.

With a significant share of the USSR's annual grain purchases covered by grain agreements, intense competition will continue to exist among exporters for grain sales to the Soviets not covered by these agreements. ■

The author is with the Grain and Feed Division, FAS. Tel. (202) 447-7700.

A Chronology of U.S.-Soviet Grain Trade

September 1975	United States begins negotiating a long-term grain agreement (LTA) with the Soviets.
Oct. 10, 1975	Five-year LTA signed, calling for USSR to purchase a minimum of 6 million metric tons of U.S. grain annually, split in near-equal shares between wheat and corn. An additional 2 million tons in any combination can be purchased without government-to-government consultations.
1979	U.S. grain exports to the USSR reach a record 15.2 million tons.
Jan. 4, 1980	President Carter imposes embargo on sales of U.S. agricultural products to the USSR.
April 24, 1981	President Reagan lifts embargo.
June 8, 1981	Regular, semi-annual consultations under grain agreement resume.
Aug. 5, 1981	LTA, due to expire Sept. 30, 1981, extended one year. United States offers 15 million tons more than the 8 million "committed" for that year.
August 1982	U.S.-USSR LTA extended for another year.
April 22, 1983	United States proposes negotiation of new LTA to USSR.
May 16, 1983	Soviet Union accepts proposal to negotiate a new LTA.
Aug. 25, 1983	United States and USSR sign new five-year LTA calling for minimum annual trade of 9 million tons—at least 4 million each of wheat and corn; remaining 1 million tons can be satisfied by any combination of wheat, corn, soybeans or soybean meal. If soybeans or meal are purchased as part of minimum, 500,000 tons of soybeans/meal counts as 1 million tons of grain. Soviets also may buy up to 3 million tons of additional wheat or corn without consultations.
Jan. 24, 1984	First session of regular, semi-annual consultations under new LTA held in London; United States offers an additional 10 million tons above the 12 million provided for in agreement.
May 22, 1984	Second consultation session held in Moscow. Both sides decide to return to pre-embargo practice of spring and fall consultations held in the United States and Soviet Union on an alternating basis, rather than in third-country location.
Sept. 11, 1984	USDA communicates with Soviet Ministry of Foreign Trade and raises the supply availability level for October 1984-September 1985 to 22 million tons.
Nov. 20, 1984	First session of regular, semi-annual consultations for the second year of the LTA held in Washington, D.C. for first time since October 1979. Basic agenda is the same as in previous sessions.

Global Productivity Gains Will Stiffen Competition for Exporters

By Dennis T. Avery

■ New winter barley varieties have added a million tons a year to British cereal production. Meanwhile, new field pea and bean varieties boosted French production by a fifth in 1983 and by another fourth last year.

■ Saudi Arabia has just set a world record for generating a wheat surplus. Saudi production has swelled from 150,000 metric tons 10 years ago to a projected 1.3 million tons for 1984/85. Encouraged by wheat prices of $1,000 per ton or more, the Saudis have literally turned the desert green.

■ In the Sudan, a new hybrid sorghum could triple cereal yields in large parts of eastern and southern Africa, even while it vastly improves drought resistance.

These are but a few examples of the major surge in agricultural productivity going on in the world today. These technologies, while they may help overcome the problem of world hunger, also bring with them a new set of marketing problems.

Gains Augur Disposal Problems

Commercial demand for farm products has not been increasing as rapidly as expected. Protein demand, which sparked most of the recent increase in world farm trade, has proven to be very price-sensitive.

Also, the developing nations—which were among the most important growth markets for agricultural products throughout the 1970s—lack the foreign exchange to meet the growing food demand of their rising populations through imports. They are turning inward, and finding they have important agricultural potential if they support their farmers with appropriate policies and investments.

All of this sets the stage for the most competitive decade in farm export markets that the world has ever seen. Virtually everywhere in the world today, farmers have more production potential, more incentive to use it.

Here, briefly, are some of the productivity challenges that U.S. exporters will be facing around the world during the next few years.

Western Europe

In the near future, the European Community (EC) is expected to admit Spain and Portugal to its ranks, adding 48 million cosumers and 24 million hectares of farmland to the EC's Common Agricultural Policy.

Iberian farm productivity currently is the lowest in Europe; Spanish and Portuguese agriculture will almost certainly begin setting new farm production records under the stimulus of high EC price guarantees. Thus, the EC is virtually certain to make even greater use of export subsidies in the years ahead.

The EC has imposed quotas on its dairy producers—a move it regarded as politically difficult and significant. The impact on overall farm output probably will be minimal, however.

The quotas lock in a 20-percent annual surplus to begin with. Moreover, productivity constrained in milk production will simply pop up somewhere else. Feed that doesn't go to dairy animals will simply go to produce meat instead.

EC grain and oilseed production continues to increase. Since the 1960s, the EC has moved from net grain imports of about 20 million tons a year to net exports of about 15 million tons.

Eastern Europe

Eastern Europe is one of the few places around the globe where farm productivity is not rising rapidly, but Hungary is proving that gains are possible even there.

Hungary decentralized its agriculture in the 1960s, freeing farm managers to seek higher productivity and offering incentives for success. One of the intriguing Hungarian developments is the Technically Operated Production System, or TOPS.

TOPS compete with each other to pick out the best available technology, provide it to the big Hungarian farms on a contract basis, and will even train the farm's workers and maintain its machinery. Average Hungarian corn yields are as good as those in the United States.

Asia

Green Revolution rice varieties have been the biggest single factor in lifting Asian agricultural output by more than 25 percent in the last decade. The area planted to these high-yielding varieties is still being expanded.

The dramatic shift in Chinese farm policy also has given a big boost to the region's agricultural productivity. China's agricultural output has jumped some 40 percent in the five years since the decision to scrap big communal farms and lease the land back to families and small groups.

Chinese farmers have produced record grain crops the last four years, even while cutting grain area to make room for record crops of cotton, sugar and oilseeds. In fact, China has shifted from a major grain importer to a marginal buyer as a result, and is exporting cotton instead of importing.

Thailand, Malaysia, Indonesia and the Philippines have all increased their farm productivity by more than 35 percent in the last decade, with surging output of rice and export crops.

India's grain production is limited mainly by the price incentives its government is willing to offer. Pakistan is exporting grain. Even Bangladesh is making major progress toward grain self-sufficiency, helped along by high-yielding rice varieties and by growing wheat in the dry season between rice crops.

Latin America

Latin America's agricultural productivity has risen about 35 percent in the last decade. Substantial economic progress has been made, even though large numbers of campesinos still practice relatively primitive agriculture on farms that are having to feed more people as the rural population grows. There is no shortage of agricultural potential, however, if these small farmers adopt modern technology.

Brazil has made especially successful investments in boosting and diversifying its farm output. Argentina also has expanded farm exports sharply, and if prices to Argentine farmers were permitted to fully reflect world market values, production there would have increased still more.

Africa

Africa is everyone's hunger concern—but not because it is lacking in agricultural resources. The real problem is that most of Africa continues to practice traditional primitive, shifting cultivation. Population pressures have been rising, so fallow land has less and less time to recover natural fertility.

There is an obvious need to modernize agricultural methods with improved seed varieties, fertilizer and pest control systems. This requires a huge shift in thinking, however, for both farmers and African governments.

Africa is also hampered by having achieved independence at a time when central planning and rapid industrialization were the fashionable development models. Neither has proved very effective in practice.

The difference that policy can make to agriculture is demonstrated in the neighboring countries of Kenya and Ethiopia. These two nations have good agricultural resources—but have followed diametrically opposite farm policies.

Kenya divided big landholdings among smallholders, then backed the smallholders with price incentives, research and extension programs. Overall farm productivity increased 37 percent from 1971 to 1982.

Ethiopia dismantled its budding agricultural research station and kept prices to farmers low. Its only farming investments have been in big collective farms, which produce only 6 percent of the farm products though they absorb 90 percent of the farm capital. Equally unsuccessful policies have left food production far below needs and potential in such other countries as Tanzania, Mozambique, Ghana and large parts of the Sahel.

Africa is an area where national farm policies may improve significantly in the next decade. The crucial shortage of foreign exchange already is forcing policy changes. Research has only recently begun to focus on African food crop production, but already it has delivered some major results. ■

The author is with the Bureau of Intelligence and Research, U.S. Department of State. Tel. (202) 632-8600.

Recent Breakthroughs for World Farmers

■ Peruvian researchers have apparently solved the secret of permanent agriculture in the huge Amazon Basin. They are now in their 13th year of triplecropping rice, corn, peanuts and soybeans, and getting 10 tons per hectare a year. The secret lies in adding a complete menu of trace minerals and lots of lime for each crop. Trace minerals leach rapidly out of the acid Amazonian soils due to the high rainfall. Local farmers have duplicated the research success. The project's results may be applicable to as much as 300 million hectares of the basin.

■ Thailand has increased its vegetable oil production from 15,000 tons in 1980 to 55,000 tons in 1984, and next year's crop is projected at 75,000 tons. Thai researchers are still identifying the right species of weevils to improve pollination in their palm oil groves, and they believe their highly sophisticated tissue culture research will raise the oil content of the kernels from the current 20 percent to 30 percent.

■ Growth-regulating chemicals can now shorten the soybean growing season by two weeks—permitting doublecropping of soybeans and wheat as far north as central Illinois in the United States. The treatment presumably will increase doublecropping potential in other parts of the world, such as China and Latin America.

■ The International Rice Research Institute has introduced its Third World rice variety, which requires only two-thirds as much nitrogen and one-tenth the pesticide protection to achieve yields as high as its previous "miracle" rice varieties.

■ Seed companies from around the world are working to adapt a hybridization technique developed for U.S. wheats to their own varieties. Plantings of the world's first hybrid wheat in the American Midwest in 1983 yielded 25 to 30 percent more than previous varieties. Also in the wheat area, a new seed treatment against "take-all" disease promises to increase wheat yields sharply in the Pacific Northwest.

■ At Cornell University, researchers have found that additional doses of dairy growth hormones increase milk production by 15 to 40 percent per cow. The treatment is now being tested to ensure that there are no side effects for consumers. At Michigan State University, high-efficiency strains of rumen bacteria have been identified, which could be "planted" in cows' stomachs to increase feed efficiency another 10 percent.

■ Genetic engineering ensures that even more sophisticated technologies are on their way down the research pipeline.

USDA has already produced the world's first fully safe vaccine for foot-and-mouth disease, using genetically engineered bacteria. Researchers say the same technique may produce an equally effective vaccine for Africa's East Coast cattle fever.

USDA also recently announced the world's first viral insecticide. It attacks the larvae of the Heliothis insect family—which includes such worldwide pests as the corn earworm, tomato hornworm, soybean podworm and tobacco budworm. The new insecticide should sharply reduce pest losses with no negative environmental impact.

Genetic engineers have already identified soil bacteria that produce nitrogen (in the form of ammonia) for their own use. Now they are trying to modify the bacteria to produce extra nitrogen for crops. Eventually, such bacteria could be planted in crop root zones to reduce the need for chemical fertilizer. ■

Fact File

1984: An Agritrade Chronology

Following is a partial chronology of events that made 1984 a busy year in agricultural trade.

January	**9, 23**	United States and European Community (EC) conduct high-level and technical meetings in Brussels on Third-Country Red Meat Directive.
	12	United States and EC hold bilateral consultations in accordance with GATT Article XXIII proceedings concerning the U.S. tariff reclassification of machine-threshed tobacco.
	17-19	Israel and United States hold first round of negotiations on proposed Israeli free-trade area (FTA).
	25	United States and Soviets conclude first session of regular semi-annual grain consultations on new long-term grain agreement.
	27	United States and Jamaica trade milk products for minerals. (22,687 metric tons of U.S. dairy products for 600,000 tons of Jamaican bauxite, each valued at $20.4 million.)
February	**2**	United States signs agreements on agriculture, cooperative trade and technical assistance with Algeria.
	3	Environmental Protection Agency (EPA) bans the use of ethylene dibromide (EDB) as a fumigant on bulk grains and for spot treatment of grain milling equipment. EPA sets tolerance limits for EDB residues in grain and grain products.
	9	Bilateral consultations held with Chile on the Minimum Import Price for wheat.
March	**2**	EPA proposes elimination of EDB as a fumigant on fresh citrus and papayas, and sets interim residue tolerance levels.
	14	United States and EC hold bilateral meetings on export subsidies.
	15-16	Japan offers a new trade expansion package as a precursor to talks on beef and citrus.
	21-23	Second round of negotiations on the Israeli free trade area held.
	31	The EC Council of Agricultural Ministers approves its annual price package, including production quotas for dairy products, changes in the monetary compensatory amount system and proposals to restrict nongrain feed ingredient imports.
April	**6**	The EC officially notifies the GATT that it will renegotiate the duty bindings on certain nongrain feed ingredients under Article XXVIII.
	7	The United States and Japan agree on raising Japanese import levels of high-quality beef and oranges as the basis for a new four-year beef and citrus trade understanding. Japan agrees to yearly increases of high-quality beef import quotas by 6,900 tons, fresh oranges by 11,000 tons, and orange juice by 500 tons. Japanese also agree to phased liberalization of grapefruit juice imports.
	10	President Reagan signs the Agricultural Programs Adjustment Act of 1984, which freezes or lowers domestic crop target prices and expresses the sense of Congress that more funds be allocated to P.L. 480 and to export credit and credit guarantee programs.
	11	U.S. Trade Representative (USTR) accepts Japanese trade expansion package involving agricultural quotas and tariff measures and agrees in return to suspend GATT Article XXIII proceedings against Japan on 13 categories of agricultural products.
	27	Japan announces a new trade package aimed at further opening the Japanese market and economy in many areas. The package includes tariff reductions on 32 farm products, quota liberalization on 7 items and quota increases on 12 items.

May	**15-17**	Third round of negotiations are held on framework of U.S.-Israeli free trade agreement.
	18	Commodity Credit Corporation (CCC) announces it will make available up to $90 million worth of grain to private exporters on a bid basis for resale to African countries hit by drought.
June	**12**	United States and EC hold first meeting under GATT Article XXVIII procedures to discuss EC's proposed import restrictions on corn gluten feed and other non grain feed ingredients.
July	**1**	Agricultural Trade Office opens in Algeria.
	2	Congress approves an additional $60 million in P.L. 480 aid to Africa.
	12	Beef variety meats are included in GSM-102 for first time.
	16-17	U.S.-Argentine Mixed Economic Commission meets to discuss bilateral issues.
	18	President Reagan signs the Deficit Reduction Act, which includes the Foreign Sales Corporation Act of 1983. The legislation replaces Domestic International Sales Corporations with Foreign Sales Corporations.
September	**5**	A draft of a new U.S. import tariff code, converted to the "Harmonized Commodity Description and Coding System," is issued.
	7	U.S. Customs Service implements rules of origin on textiles. China and other foreign suppliers protest their restrictive effects on imports.
	11	President Reagan announces that in fiscal 1985 the Soviet Union can purchase, without prior consultation, an additional 10 million tons of wheat and/or corn under the U.S.-USSR grain agreement for a total of 22 million tons.
	13	Breeding livestock credit guarantee line under GSM-102 is expanded to include semen and embryo transplants.
	30	Fiscal year 1984 ends with U.S. agricultural exports at $38 billion, up from $34.8 billion the previous year.
October	**2**	The EC Council of Ministers agrees to a $19.5-billion budget for 1985 and a $750-million supplementary budget for the remainder of 1984.
	9-10	USTR holds public hearings on EC's proposed restrictions on corn gluten feed.
	12	Congress appropriates $37.9 billion for agriculture's budget in fiscal 1985. Funding for P.L. 480 is $1.9 billion in appropriations and carryover from previous year.
	16	United States and EC hold second meeting under Article XXVIII of the GATT on EC's proposed import restrictions on corn gluten feed.
	16	EC announces new program to sell up to 200,000 tons of butter at prices below GATT minimum.
	16	United States and EC meet to discuss U.S. Section 301 complaint relating to EC subsidies for pasta.
	17-18	Secretary Block visits Canada to discuss major bilateral issues.
	30	President signs Trade and Tariff Act of 1984 which extends the General System of Preferences for 8.5 years and addresses the U.S. tariff schedule, a free-trade agreement with Israel and a number of items including wine, corn gluten, honey and soybean products.

November	**8**	President signs a provision facilitating the export of U.S. fish and fish products by USDA and the CCC.
	15-16	GATT Committee on Trade in Agriculture agrees to recommend two approaches to greater discipline over agricultural export subsidies: improvements in existing rules and elaboration of a new rule to prohibit export subsidies with certain limited exceptions.
	20-21	U.S. and USSR hold regular grain agreement consultations.
	20-21	U.S. delegation is given no assurance that China will fulfill its grain sales agreement import commitment as four-year agreement draws to a close. Shipments are 3.8 million tons short of 12-million-ton minimum for last two years of agreement.
	26-29	The annual meeting of the GATT Ministerial convenes in Geneva to act on recommendations of the Committee on Trade in Agriculture (CTA) and other GATT bodies. Members agree to extend CTA work program.
	29	Secretary Block announces he will release 300,000 tons of wheat from the food security wheat reserve for Ethiopia famine relief.
	29	Soviet minister of agriculture arrives in United States for 12-day visit—the first since 1971. He and Secretary Block agree to take steps to revive activities under agreement on cooperation in agriculture.
December	**3**	First fiscal year 1985 export forecast issued at USDA annual Agricultural Outlook Conference. Value of U.S. agricultural exports is forecast at $36.5 billion. Volume is forecast at 149.5 million tons.
	14	Secretary Block participates in U.S.-EC cabinet level meeting.

1984

Thailand's Flourishing Corn Crops Strengthen Export Potential

Black Star

By Mary Ponomarenko

The United States dominates global corn trade, supplying nearly 80 percent of world needs, but if Thailand can demonstrate its reliability as a quality-conscious supplier, it may rival Argentina as the No. 2 supplier by the end of the decade.

With exports of 6 million tons, Argentina now runs a distant second to the annual U.S. corn export level of about 50 million tons. However, Thailand is emerging as a strong competitor as technology and experience push corn production upward.

By increasing cultivated area, Thai farmers have nearly doubled corn production over the past 10 to 12 years. Improved yields are expected to account for future bulk production increases, which could double again in the next five years.

In recent years, Thailand's corn exports have averaged about 3 million tons annually. This season, the Thais are expecting a record 4.5-million-ton corn crop with exports potentially exceeding the 1981/82 record of 3.3 million tons.

Market Opportunities

The Thais believe that corn is an export commodity they can expand competitively, particularly in large Asian corn markets such as Japan, Taiwan and Korea.

Together, these countries import over 20 million tons of corn a year, or almost a third of world trade. Although these markets now buy most of their corn from the United States, Thailand hopes to attract more of their business, since proximity to these markets means lower costs.

Thailand has a competitive advantage of another type in Middle Eastern and African countries where bagged imports are preferred. About half of Thailand's total exports are bagged, and cheap Thai labor makes its bagged corn very competitively priced.

Improved Cultivation Spurs Production

Many Thai farmers have made the transition to buying hybrid seed—the first step in improved cultivation.

This year, farmers increased purchases of improved open-pollinated varieties by as much as 50 percent; use of hybrid seed increased fourfold. Although this increase is from a very small base, it is nonetheless a significant development.

Corn also is becoming a significant cropping alternative to cassava (tapioca), which is in surplus and has limited export opportunities.

The European Community (EC), which had been the Thais' largest cassava buyer, has cut its import quotas. Lacking alternative markets, cassava prices have plummeted. As a result, some farmers are plowing up unharvested cassava fields this season to plant corn.

For the first time, the Thai government has started a program in the northeast section of the country to shift plantings from cassava to corn and sorghum. About 120,000 acres are targeted for the crop diversion program this year, with an additional 400,000 acres earmarked for the following year.

Any increase in corn and sorghum production will likely translate into higher export levels, since domestic use of supplies for livestock and poultry feed is not expected to increase appreciably.

The Quality Issue

To move these additional supplies into export markets, Thailand will have to demonstrate its reliability as a quality conscious supplier. One of the most challenging limitations to export expansion in Thailand is an aflatoxin problem.

Typically, the aflatoxin content of Thai corn is about 50 parts per billion (ppb) and sometimes ranges to 100 ppb or more. The Japanese prefer corn that does not exceed levels of 30 ppb, and Iraq has requested even lower levels.

Meeting these requirements is a problem the Thais are trying to overcome. A campaign was started this season to make farmers more aware of the problem and to improve their handling of corn. Posters emphasizing drying and quality were hung in many local trading offices, and a film dealing with the aflatoxin issue is in production.

Some experts say that improved handling and new varieties will help. Others say that only a change in farmers' cropping patterns would make a significant difference, since the bulk of the corn crop is harvested during the rainy season.

This season, the Thais have made significant marketing inroads. Kenya emerged as a major importer and Taiwan is buying Thai corn again. However, both countries have complained about the quality of the corn received.

The Soviets reportedly are interested in buying up to 500,000 tons of Thai corn this season, more than double the usual trade levels, but these sales also are contingent on quality guarantees. ■

The author is with the Grain and Feed Division, FAS. Tel. (202) 447-5413.

Foreign Sales Corporation Act Points Toward Greater Profits

By Dale L. Good

Are you an exporter? Would you like to easily and inexpensively increase your profits by 7-15 percent?

If you answer yes, then you may wish to consider forming a Foreign Sales Corporation (FSC).

The FSC is an export tax incentive that replaces the Domestic International Sales Corporation (DISC). Last July 18, President Reagan signed the Foreign Sales Act of 1984 into law as part of this year's Tax Reform Act. It became effective for tax years beginning in calendar 1985.

The new tax incentive for U.S. exports, agricultural as well as nonagricultural, was sponsored by the Administration to accommodate claims by U.S. trading partners in the councils of the General Agreement on Tariffs and Trade (GATT) that the DISC was an illegal tax subsidy for exports.

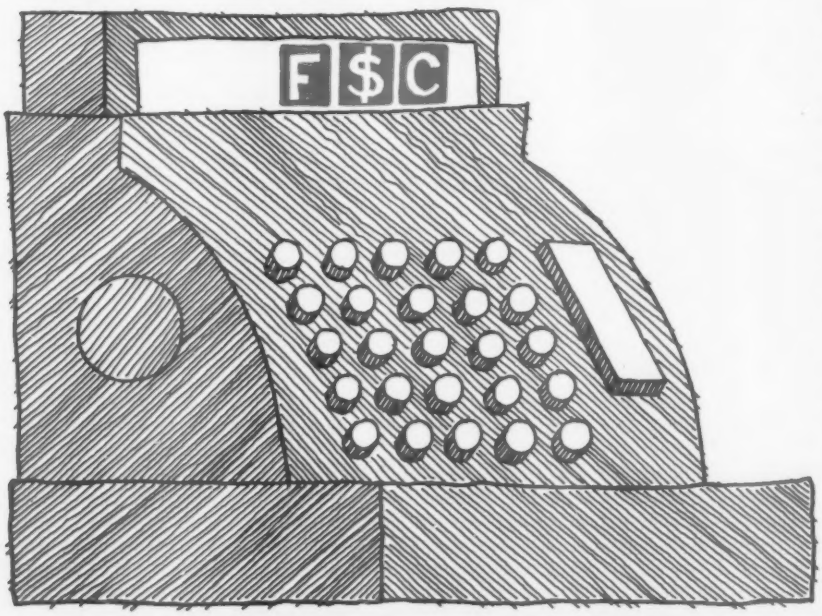
What Is an FSC?

An FSC is a corporation set up in a foreign country or U.S. possession—other than Puerto Rico—that is allowed to earn some exempt and nontaxable income on exports from the United States.

In most cases, this partial exemption can mean a U.S. tax savings of up to 7.4 percent of the profit on exports by a manufacturer/exporter and up to 14.7 percent for a trading company exporter. The FSC is required to pay U.S. tax on the balance of its nonexempt income.

FSC dividends to its U.S. corporate shareholders are not taxable, while the DISC had to invest the proceeds in qualified foreign assets. More importantly, U.S. farmers and agricultural cooperatives can now benefit from the FSC, which was not the case under the DISC.

FSCs can be formed by manufacturers and export groups, such as export trading companies (for more information on export trading companies, see *Foreign Agriculture*, September 1984 and May 1983). The FSC can function as a principal, buying or selling for its own account, or as a commission agent. It can also be related to a manufacturing parent company or it can be an independent merchant or broker.



How an FSC Is Formed

In order to set up an FSC, it must be incorporated and have its main office in a foreign country or U.S. possession, defined as the U.S. Virgin Islands, American Samoa, Guam or the Northern Mariana Islands.

The FSC has to have at least one director who is not a U.S. resident, and it must keep one set of its books of account at the main offshore office.

Finally, the offshore corporation must file an election (registering the proper form) to become an FSC with the Internal Revenue Service.

The foreign country in which an FSC is located must have a satisfactory "exchange of tax information agreement" with the United States and, for practical reasons, impose little or no income tax on the FSC operations there.

On Nov. 6, 1984, the U.S. Treasury Department certified 23 countries with which the United States has income tax treaties that provide for a satisfactory exchange of information. These are Australia, Austria, Belgium, Canada, Denmark, Egypt, Finland, France, West Germany, Iceland, Ireland, Jamaica, Korea, Malta, Morocco, the Netherlands, New Zealand, Norway, Pakistan, the Philippines, South Africa, Sweden and Trinidad and Tobago. Barbados also qualifies under the Caribbean Basin Initiative agreement.

Anyone interested in forming an FSC must determine which of these countries impose little or no taxes on an FSC operating within its borders.

The Range of FSCs

The new FSC legislation distinguishes between large and small FSCs. A large FSC is classified as one with gross receipts of more than $5 million annually while a small one has sales of $5 million or less. Both types of FSCs need to:

- Be a qualified foreign or U.S. possession corporation with a timely FSC election;

• Have an office in a foreign country or U.S. possession;

• Maintain copies of books and records at that office; and

• Have a year-round director who is resident in the foreign country or U.S. possession.

However, a small FSC can be exempt from the requirement of managing and performing its export operations outside the United States.

How To Determine Potential Savings

To determine your potential savings per million dollars of export revenue and sales, refer to the table below. Locate your profit margin on sales to see what your tax savings might be at the maximum federal corporation tax rate of 46 percent.

	Business Type	
Profit Margin	**Manufacturing Service**	**Export Trading**
5%	$3,700	$7,350
10%	$7,400	$14,700
15%	$11,100	$22,050
20%	$14,800	$29,400
25%	$18,500	$36,750

To determine the savings, if any, from state income taxes, you must consult your own accountant or attorney.

How Much Will an FSC Cost?

The U.S. Virgin Islands is rapidly becoming the most likely place to establish and manage this new type of export corporation.

Using the Virgin Islands as a location example, the first-year costs of establishing an FSC are estimated at $2,300, with subsequent costs of around $1,500 per year.

The initial cost estimate is broken down into (1) forming an FSC, $800; (2) annual fees for corporate service firms to supply a resident director, registered agent, permanent office and minimum administration time, $1,000; and (3) franchise fees, $500.

The total outlay for setting up an FSC can only be determined when additional logistics costs are known.

Evaluating the Possibilities Of the FSC Legislation

There is no doubt that a medium to large FSC can save thousands of dollars and, in some cases, millions. However, a small exporter must evaluate whether the startup costs will be worth the trouble. One advantage of an FSC for a small exporter may be a developed awareness of international financial planning, which could lead to expansion of business interests to markets overseas.

The Commerce Department provides assistance, including personal counseling, for small exporters who wish to take advantage of opportunities afforded by the FSC legislation.

Only the general highlights of new FSC legislation have been covered in this article. For more specific information and help, contact the Office of Trade Finance, Room 1128, U.S. Department of Commerce, 14th Street and Constitution Avenue, S.W., Washington, D.C. 20230. Tel.(202) 377-4771. ■

The author is with the Export Programs Division, FAS. Tel. (202) 475-3415.

Foreign Sales Corporation Act At a Glance

Here are the major features of the new Foreign Sales Corporation Act.

■ Replaces the Domestic International Sales Corporation (DISC) with a Foreign Sales Corporation (FSC) corporate tax exemption.

■ Approximates the export tax savings that were provided by DISC deferrals.

■ Unlike DISC, benefits American farmers and agricultural cooperatives.

■ Also unlike DISC, FSC exemption does not require retention of profits to obtain the tax benefit.

■ FSC can be set up in any foreign country that agrees to exchange tax information or in any U.S. possession, except Puerto Rico.

■ Since no foreign tax credit is available on FSC income exempt from U.S. taxation, location in a jurisdiction imposing no (or very low) income taxes is practically a necessity.

■ Any U.S. possession qualified for FSC location will be prohibited for two years from trading FSC income. After December 1986, these possessions will have the discretion to tax such FSC income.

■ Forgives tax liability on DISC deferrals accumulated prior to the time the FSC proposal goes into effect.

■ Provides options for small exporters and export trading companies.

—**Jointly-Owned FSC:** Allows for unlimited exports for up to 25 joint participants.

—**Minimal Foreign Presence FSC:** Allows for up to $5 million in export sales.

—**Interest Charge DISCs:** Instead of setting up an FSC, an exporter may continue the DISC and get a 94-percent deferral benefit on up to $10 million of exports *provided* a yearly interest charge is paid on deferred taxes accumulating after the effective date of the legislation, which was Jan. 1, 1985.

For more information, contact the Commerce Department at the address and telephone number given in the accompanying article.

U.S. Wheat Uses Its Noodle To Sell Wheat to China

By Glenn Samson

Marco Polo, on discovering noodles in China in the late 13th century, could never have imagined that some day wheat farmers from the as-yet-undiscovered country of America would teach the Chinese how to improve this product.

But that is exactly what is happening today as U.S. Wheat Associates (USW), the U.S. wheat industry's overseas market development arm and a cooperator with the Foreign Agricultural Service (FAS), works with the Chinese to modernize their overall wheat food industry.

Instant noodles are one of the principal foods with which USW is working in China.

In June1984, three U.S. wheat producers were in China to participate in a program in Shanghai involving the trial run of 80,000 pounds of a special blend of U.S. noodle flour.

Demand for Wheat Noodles Is High

The flour was donated by U.S. wheat producers to the instant noodle plant in Shanghai which was opened as a joint venture between USW and China's Ministry of Commerce. The plant regularly produces some 90,000 packets of instant noodles a day, although Chinese officials say that's still well below the demand for the plant's distribution area.

Among the U.S. wheat industry leaders in Shanghai for the transfer of the flour to China were Oregon Wheat Commission Chairman John Cuthbert; Montana Wheat Research and Marketing Committee Chairman Glenn Moore, and Frank Higgins of the Idaho Wheat Commission.

Cuthbert stressed to the Chinese officials that the U.S. flour blend is the same as that being used in other Asian markets to produce superior quality instant noodles.

The flour blend contains 50 percent soft white wheat—the major type produced in the Pacific Northwest, and hard red winter wheat—grown mainly in the Midwest.

The day before the flour donation ceremony, USW held a one-day seminar in the Shanghai instant noodle plant. Chen Ine-Chiun, USW's Hong Kong-based instant noodle consultant, discussed quality control with 20 technicians from factories in China's central coast area. A second seminar was held later in Beijing for nearly 20 technicians from north central China.

The two seminars also emphasized the importance of equipment maintenance.

More Seminars Requested

Beijing-based USW China Director Rick Callies said the instant noodle seminars and the quality of the noodles produced from U.S. wheat generated much interest. The Chinese have already requested similar seminars and in-plant consultation in other areas of China.

Since the opening of the Shanghai instant noodle plant in September 1982, the Chinese have purchased nearly 20 similar plants.

Hong-Kong based U.S. Wheat Associates Vice President Fred Schneiter noted, "The Chinese are clearly impressed with the quality of the noodles, but this activity isn't going to cause an immediate shift in China's wheat buying pattern. Neither China, nor wheat market development, work that way."

He explained the end user is becoming an increasingly important link in the buying chain in China and, "it's important to demonstrate what your product can do."

Schneiter predicts that this project, as well as other USW activities, will lead to a growing appreciation and demand for U.S. wheat quality, "as in the other markets of Asia."

USW is working with the Chinese on a number of other programs designed to hasten the modernization of China's wheat food industry.

Food Outlet Opens

For example, in May 1984, the country's first modern fast food outlet, which features hamburgers and hot dogs, opened in Beijing. USW also has helped in establishing a modern flour mill and demonstration bakery in Beijing. All three of these facilities are designed to serve as training centers for USW's technical support programs involving baking, noodles and flour milling.

The demonstration bakery in Beijing has generated a high level of interest throughout China in modern baking methods and dozens of new bakery projects are on the drawing boards, Cuthbert noted.

Montana Wheat Producer Glenn Moore, former president of the National Association of Wheat Growers, noted that "In China's current modernization program, great emphasis is being placed on better and more varied foods." "Modern fast foods, which rely heavily on a variety of quality wheats, are one of China's top priorities. USW clearly enjoys a very close working relationship with the Chinese, and I am sure this is going to work to our mutual advantage in the years immediatily ahead," Moore noted.

Team Sees Impressive Progress

Higgins, the only one of the three-member wheat producer delegation to have visited China before, said, "I am really impressed with what I see happening with wheat foods in China. They are progressing very fast and I think that market development programs such as this flour donation, the noodle plant, the bakery, the flour mill, and other activities are right on target in helping China get more and better—and more convenient—food for the people."

Following the Shanghai program, the three-member wheat team proceeded to Guangzhou (Canton) with Schneiter to meet with food industry officials.

"A four-member team of provincial officials had just returned from a two-week visit to the United States, hosted by USW, and were interested in talking with us about their immediate plans to modernize their wheat food industry as rapidly as possible," Moore explained.

The province, with a population of 60 million people, lies just across the border from Hong Kong and is progressing at a rapid rate.

Aside from new bakeries, noodle plants and flour mills under construction, provincial officials have initiated a three-week baking course through the assistance of USW, and they are presently setting up a baking school at the Provincial Cereals College.

Moore concluded, "We were deeply impressed with the wheat food industry activity we saw in both Shanghai and Guangzhou, particularly as it relates to what U.S. wheat producers are doing in working directly with the Chinese to maximize our mutual potentials. It is particularly impressive when we consider that what we saw is just the tip of the iceberg for all classes of U.S. wheat. ■

The author is on the staff of U.S. Wheat Associates, Inc. in Washington, D.C. Tel. (202) 463-0999.

India

Exports Likely as Wheat Output Swells

India is expected to export 1 to 2 million tons of wheat over the next year because record-shattering 1983/84 food grain harvests have boosted wheat stocks well above target. With excellent harvests also forecast for 1984/85, food grain stocks will likely rise further and exceed covered storage capacity by a wide margin by July 1985 unless surplus wheat is exported. Likely buyers for the Indian wheat include the Soviet Union and neighboring Bangladesh, Nepal and Sri Lanka.

The Soviet Union probably will be the major market, with the wheat possibly bartered for Soviet petroleum under the Indo-Soviet rupee trade facility. The Soviets bought 1.5 million tons of wheat during 1977-80, with most of that Indian wheat shipped to Vietnam, North Korea and the Soviet Union. India also has exported food grains to Bangladesh, Nepal and Sri Lanka in the past, primarily small quantities on a loan basis. With only relatively small amounts of rice trade traffic likely, port facilities should be capable of handling 2 million tons of wheat over the next 8-10 months.—*Rip Landes, Economic Research Service. (202) 447-8229.*

Malaysia

U.S. Cotton Sales Remain Strong

Purchases of U.S. cotton by Malaysia rose strongly in 1984 as mills there strove to cope with a steep rise in foreign demand for textiles and garments, particularly in the United States. The U.S. share of Malaysia's cotton import market rose to 48 percent, up from 35 percent only the year before.

Export-oriented companies in Malaysia are in the process of restructuring plants in a major effort to become more efficient and to shift to production of higher value products. This suggests that, in the long term, Malaysia will become a market for better quality cotton—which is good news for the United States.

The Ivory Coast and Tanzania together accounted for about a quarter of Malaysia's cotton imports in 1984 since they were able to meet the fine quality spinners' preference for hand-picked roller-ginned cotton. India, Pakistan, Sudan and Thailand also were suppliers, although minor ones.—*Frank Tarrant, Agricultural Attache, Kuala Lumpur.*

SUBSCRIPTION ORDER FORM

Please print or type

Write check payable to:
Superintendent of Documents

MAIL ORDER FORM TO:

Superintendent of Documents
Government Printing Office
Washington, D.C. 20402

For Office Use Only

Quantity Charges

_____ Publications _____
_____ Subscriptions _____
Special Shipping Charges _____
International Handling _____
Special Charges _____
OPNR _____
_____ UPNS
_____ Balance Due
_____ Discount
_____ Refund

Enter My Subscription To FOREIGN AGRICULTURE

@16.00 domestic (United States and its possessions); $20.00 foreign. The Government Printing Office requires that foreign addressees send international money orders, UNESCO coupons, or checks drawn on a domestic bank only.

Enclosed is $_____
☐ Check
☐ Money order
☐ Charge to my Deposit Account
No. _____
Order No. _____

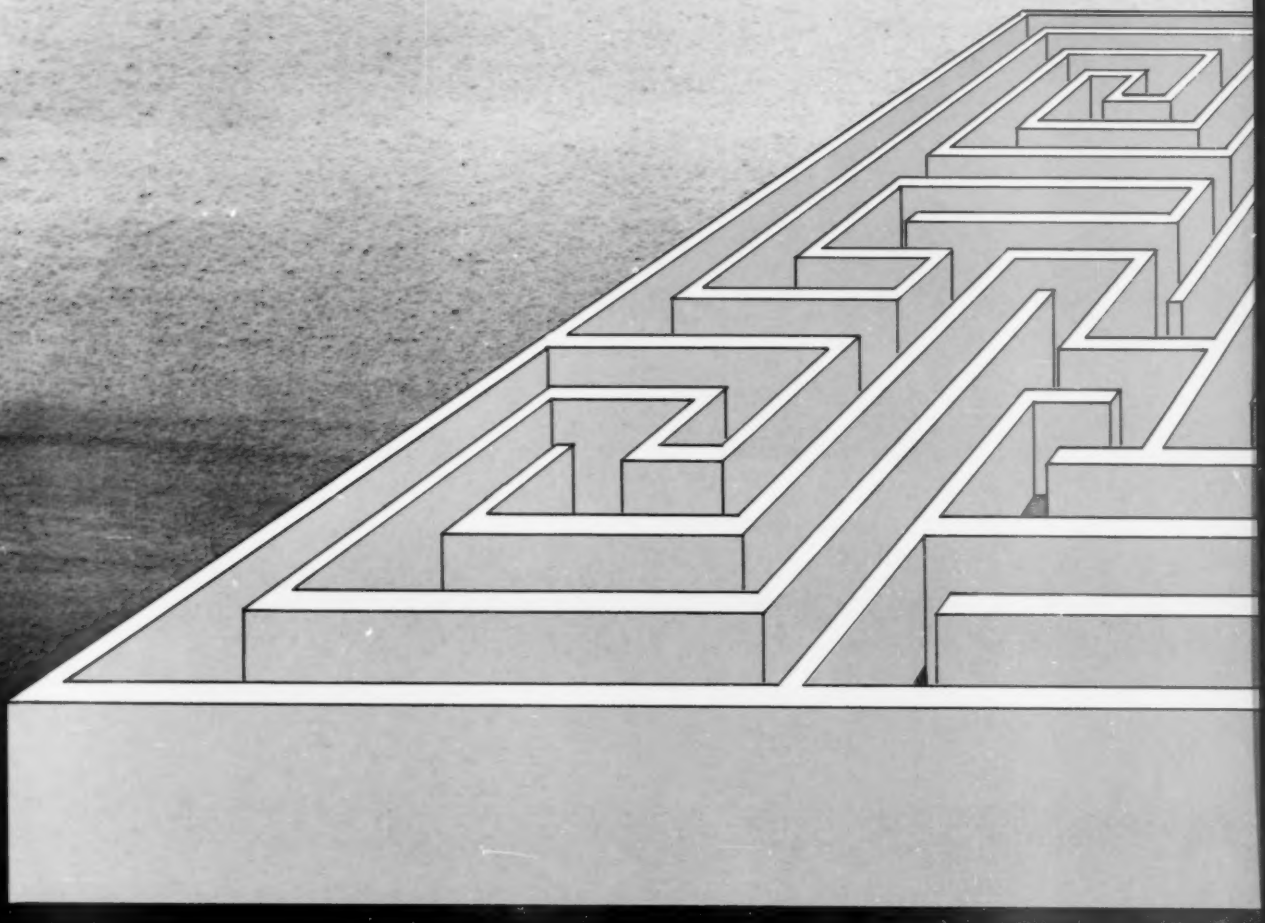
Credit Card Orders Only (Visa and Mastercard)
Total charges $
Credit card No.
Expiration Date Month/Year

Name—First, Last
Company Name or Additional Address Line
Street Address
City State Zip Code
Country

United States
Department of Agriculture
Washington, D.C. 20250

OFFICIAL BUSINESS

Penalty for Private Use, $300

Third Class
Bulk Rate
Postage & Fees Paid
USDA-FAS
Permit No. G-262

** FA SERIA300SBISSDUE011R
** SERIALS PROCESSING
** XEROX UNIV MICROFILMS
** 300 N ZEEB RD
** ANN ARBOR MI 48106